
EXITING THE CRISIS IN THE LABOUR MARKETS

IOE INFORMATION PAPER



INTERNATIONAL ORGANISATION OF EMPLOYERS

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EXECUTIVE SUMMARY

- ▶ *There is general consensus on the broad policy framework needed to exit the crisis. The leaders of the G-20 nations recognized in their November 2008 communiqué that future approaches will only be successful “if grounded in a commitment to free market principles: the rule of law, respect for private property, freedom of trade and investment, and competitive markets”.*
- ▶ *The main pillars of policy are: supporting open trade; keeping credit flowing; implementing effective regulatory supervision of financial markets; investing in the enterprise sector; stimulating global demand; protecting the most vulnerable and ensuring that social progress is not undermined.*
- ▶ *In the immediate term, enhancing access to credit will help reduce the threat of layoffs by enabling enterprises to overcome cash-flow problems associated with the higher cost of borrowing and the drying up of opportunities for trade finance. Other short-term measures, such as temporary payroll tax holidays, or wage subsidies, should also be considered.*
- ▶ *Public investment in infrastructure and housing, including through emergency labour-intensive public works, is intensifying in many countries thanks to fiscal stimulus packages. Tax cuts aimed at stimulating consumer spending are also being implemented.*
- ▶ *Education and training remain the most important means of improving employment prospects. Maintaining the right skills for the labour market will ensure that, when growth returns, the skills the economy needs will be in place.*
- ▶ *The downturn provides a unique opportunity for governments to assess whether their regulatory environments are enabling enterprise creation and development, employment generation and economic growth.*
- ▶ *Political, business and trade union leaders have a special responsibility to work together to restore growth in national economies and to reinvigorate labour markets in a way that will lead to sustainable growth.*
- ▶ *Strengthening social protection measures should be considered to bolster demand and to protect the most vulnerable. Similarly, active labour market programmes can play an important role in facilitating adjustment to rapidly changing conditions.*
- ▶ *In the current climate of fear and apprehension, enterprises can help ease tensions by planning and implementing decisions in a manner that is fair, consistent and based on rigorous analysis – especially those related to downsizing.*
- ▶ *Enterprises need to focus, not just on survival, but also on preparing for the economic upturn when it comes.*
- ▶ *Employers’ Organizations have a key leadership role. They need to champion open and honest debate with all stakeholders on the policies and measures needed to exit the crisis.*
- ▶ *The ILO, by focusing on its core mandate, can play a pivotal role in assisting the real economy actors with strategies to combat the crisis in labour markets.*

1. CURRENT SITUATION

The full brunt of the financial crisis which materialized in the last quarter of 2008 is currently impacting on labour markets. This is now very much a '*Global Job Crisis*'.

The ILO estimates that, in 2009, open unemployment could increase by between 30 and 50 million over 2007, reaching a total of 230 million - a global unemployment rate of 7.1%. The number of Working Poor in developing countries is estimated to increase by as much as 200 million.

The IMF estimates global growth for 2009 at only 0.5% and that global output will probably fall for the first time since the Second World War. Advanced economies are expected to contract by 2.0% and the newly-industrialized Asian economies (Asian Tigers) will contract by 3.9%. Only the group of emerging and developing economies is expected to grow at positive rates with an average of 3.3%, led by China (6.7%)¹ and India (5.1%). Many of these are highly dependent on trade and global export volumes which are expected to contract by 2% this year.²

The collapse in global demand will drive exports down by roughly 9% in volume terms in 2009, the biggest such contraction since the Second World War. The contraction in developed countries will be particularly severe with exports falling by 10% this year. In developing countries, which are far more dependent on trade for growth, exports will shrink by some 2%-3% in 2009.³ Volatility in exchange rates is also creating more uncertainty around the profitability of international trade transactions.

DEVELOPED COUNTRIES

The OECD reported that some 21 of its 30 member countries were already in, or heading into, a recession that could last a year. Business investment will contract by over 5%, and OECD unemployment could rise by at least 8 million by 2010.

In the Eurozone (EU16) the rate of unemployment climbed to 8% in December, which means that some 12.5 million people in the region are now seeking work. For the entire 27-nation EU, the unemployment rate was 7.4 % in December, up from 7.3% a month earlier. The European Commission projects an unemployment rate of 9.5% in 2010.

¹ This is not enough to maintain employment levels. Chinese premier Wen Jiabao, speaking at the World Economic Forum in January said that the crisis had hit China with "severe challenges", including rising unemployment caused by the collapse of export markets such as the United States and that 8.0% growth was needed to guarantee social stability.

² Pascal Lamy speech : "Trade is part of the solution to the global economic crisis" 2 February 2009

³ WTO forecasts 25 March 2009

DEVELOPING COUNTRIES

For developing countries the effects of the crisis will disrupt – and in some cases reverse – the development path and compromise the achievement of Millennium Development Goals.⁴ Dominique Strauss-Kahn, the IMF’s Managing Director, told the ILO’s March Governing Body that millions could be thrown back into poverty by the crisis. He even suggested that there could be a “threat of civil unrest, perhaps even war” as a result.

World Bank estimates for 2009 suggest that these lower than expected economic growth rates will add 46 million to those people already living on less than \$1.25 a day. An additional 53 million will be trapped on less than \$2 a day, on top of the 130-155 million people plunged into poverty in 2008 because of soaring food and fuel prices.⁵

Decreasing growth rates, combined with high levels of initial poverty, leave many households in developing countries highly exposed to the crisis. This is compounded by the fact that their governments are constrained in their ability to cushion the impact due to limited institutional capacity and fiscal resources.

Almost 40% of developing countries are highly exposed to the poverty effects of the crisis (with both declining growth rates and increasing poverty levels) and an additional 56% of countries are moderately exposed (they face either decelerating growth or high poverty levels), while less than 10% face little risk.⁶

As capital inflows and export earnings vanish, poor countries face a mountain of debt: \$2.5 trillion-3 trillion of emerging-market debt falls due in 2009—as much as the American and European budget deficits, plus Europe’s bank bail-out costs.⁷ The World Bank puts emerging markets’ financing shortfall between \$270 billion and \$700 billion.

IMMEDIATE IMPACTS

Decreasing demand is impacting on dynamic sectors (e.g. export-led, construction, tourism) in all regions and forcing some workers into: a) less skilled and lower-paid jobs; b) unemployment; and c) in countries without effective social safety nets, informality or subsistence living (for example, during the 1997 Asian crisis some 30-40 % of displaced urban workers moved back to agriculture).⁸ As layoffs mount and recruitment plans come to a halt, some groups – notably women, migrants, older workers and youth – face particularly acute labour market challenges.

⁴ Developing country economies in the last ten years have grown faster than in any period since 1965 and even faster since 2000 (World Bank: World Development Report 2007). At purchasing power parity (which equalises the price of a common basket of goods in different countries) emerging and developing economies share of Global GDP rose from 39% to 48% between 1996 and 2006. (IMF World Economic Outlook 2007). Developing countries’ annual GDP growth averaged nearly 6% in the period 2000-07 (close to 8% for 2005-08 (projected) – but growth rates are currently slowing.) (All figures World Bank 2007).

⁵ Since July 2008, prices of all commodities, include food items, have fallen sharply. By October 2008, the prices of the three major food grains declined substantially, and by December 2008 they fell further. The decline in the price of rice was sharper than that of wheat and maize. It needs to be noted, however, that despite the declines mentioned above, the prices of all three major food grains remained at levels substantially above those of January 2007. Rising Food Prices and their Implications for Employment, Decent Work and Poverty Reduction. (ILO February 2009).

⁶ The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens (World Bank 2009).

⁷ The Economist “The toxins trickle down”

⁸ “How should labor market policy respond to the financial crisis?” World Bank, February 2009

So far, the most affected sectors appear to be those that had been the most dynamic, typically urban-based exporters, construction, mining and manufacturing. The garment industry has laid off 30,000 workers in Cambodia (10% of workforce) where it represents a very significant export industry. In India, over 500,000 jobs have been lost over the last 3 months of 2008 in export-oriented sectors such as gems and jewellery, autos, and textiles.⁹ The rapid decrease in commodity prices is also impacting developing countries, particularly those heavily dependent on particular commodity exports, (Côte d'Ivoire for instance where cocoa generates a fifth of revenues).

The impact of the crisis on labour markets will go beyond job losses; wages are also expected to fall.¹⁰ In particular, the incidence of informal employment and working poverty will rise – aggravating pre-existing challenges. In the poorest countries, these negative developments will have the biggest impact on those with lowest incomes, e.g. changes to domestic consumption, reduced investments in education, migration to urban areas etc.

Remittance income from other countries or urban areas, a stabilizer under normal circumstances, can no longer be relied upon as these workers face job losses. Remittances were worth \$300 billion in 2008, *much more than development aid! That is now dropping.*

World Bank researchers predict remittances will fall more than originally expected this year—from \$305 billion last year to an amount closer to \$290 billion in 2009. Remittances flowing to developing countries from Russia, South Africa, Malaysia and India are especially vulnerable to the rolling economic crisis.¹¹

Pension systems are also under severe strain as a result of the collapse of capital markets and private pension funds have made record losses on their investments. According to the OECD, between January and October 2008, private pensions registered losses of almost 20% – representing a value of \$4.5 trillion. In World Bank client countries with funded pension systems, losses in pension funds range from 8% to 50%.¹²

The most optimistic of three possible scenarios is that recession ends in the second half of 2009 as a result of the substantial actions of governments in reducing interest rates, shoring up the banking system and raising government deficits. A second scenario is that recession continues throughout this year with a weak recovery in 2010 followed by a period of slow growth. The third, and most extreme scenario, is of a sustained and pronounced downturn similar to the Great Depression of the 1930s. The difficulty is that, in the next six months, it will be impossible to determine which of these outcomes is unfolding. Economic news continues to be pessimistic with job losses mounting and confidence completely collapsed.

⁹ “Swimming against the tide” World Bank Background Paper prepared for the G20 Finance Ministers March 13-14, 2009

¹⁰ According to the World Bank, during the East Asian crisis median wages in Indonesia declined by 20-30%, while in Mexico following the 1994 Tequila crisis real wages dropped by 21%. “How should labor market policy respond to the financial crisis?” World Bank, February 2009.

¹¹ The top 5 recipients of remittances in 2008 were India: \$45 billion; Mexico: \$26 billion; Philippines: \$18 billion; Poland \$11 billion.

¹² “The financial Crisis and Mandatory Pension Systems in Developing Countries” World Bank 2009.

2. BROAD POLICY FRAMEWORK

Encouragingly, there is general consensus on the broad policy framework needed to exit the crisis. The leaders of the G-20 nations recognized in their November 2008 communiqué that future approaches will only be successful “*if grounded in a commitment to free market principles: the rule of law, respect for private property, freedom of trade and investment, and competitive markets*”.

The immediate task is to restore confidence and reduce uncertainty with firm decisive action. Lack of confidence is leading to the postponement of financial decisions, by both consumers and enterprises, and massively contributing to the current downward spiral.

The main pillars of remedial policy are:

1. **SUPPORTING OPEN TRADE:** The main protection that enterprises and their workers need is the security that economies remain open and that opportunities to grow and develop existing and new commercial relationships across borders will not be closed off.

Protectionism in the face of crisis has proven throughout history to be a disastrous approach and the ramifications of isolationism and economic nationalism would be unthinkable. This view is widely accepted.¹³

2. **KEEPING CREDIT FLOWING:** The key role of financial markets is to facilitate growth in the real economy by providing stability and liquidity to enterprises and individuals. Currently, many viable businesses cannot access credit and this is deepening the recession. Banks must now act to ease the credit crunch and start circulating in the economy the cash injections received through various government stimulus packages. They need to be recapitalized and to avoid engaging in financial nationalism in attempts to protect domestic credit lines by discouraging cross-border lending.

“All countries have a duty to resist protectionist tendencies, work towards tangible further opening of world trade and ensure that their stimulus packages do not disrupt trade. Open trade and openness to cross-border investment are the best preconditions for ensuring that economic momentum is regained on a global scale. We regret that modalities were not adopted within the framework of the WTO's Doha Round in the past year. It is even more important to achieve this goal in 2009.”

Joint statement by the heads of the IMF, World Bank, WTO, OECD, ILO and Angela Merkel (6 February 2009)

¹³ They (delegates) highlighted the requirement to work together for a sustainable recovery that would generate decent work opportunities throughout the region, contribute to global development and social justice for a fair globalisation while staving off the risk of protectionist responses. Creating an environment conducive to sustainable enterprise is a necessary foundation. The Meeting agreed that it was essential to preserve open markets. (Conclusions of the eighth European Regional Meeting of the ILO paragraph 3.

3. ***EFFECTIVE REGULATORY SUPERVISION OF FINANCIAL MARKETS:*** Changes will be required, in terms of practices and regulation, to ensure that financial systems remain robust. Such an effort calls for enhanced international coordination and cooperation, a balance between reasonable regulation and innovation, sound evaluation of systemic risk, and appropriate investor and consumer protection. Support is widespread for the development of a more coherent and efficient system of financial sector cooperation. There is a pressing need for change, including eliminating scope for conflicts of interest.

“A properly regulated market system is the best and most proven means to ensure social and economic prosperity, and to protect and fulfil human aspirations. The current crisis has taught us that only with appropriate regulation can financial markets fulfil their task of providing stability and liquidity to business”.

**Economic Recovery and Employment:
IOE Statement Lisbon, 9 February 2009**

ENTERPRISE RECOVERY: Enterprises, particularly small ones, create jobs and *their recovery has to be the starting point*. Particularly valuable to employment creation are enterprises which provide innovative, high-quality services and products that have important knock-on effects on suppliers and buyers and thereby expand the job-creation process; generate higher value, adding dynamic to an economy and, through their own efficiency, help to reduce costs for other businesses. Investment in such companies is needed now to stimulate their expansion.

“Smaller enterprises are experiencing particular difficulty in restoring credit lines. Measures such as access to financing (e.g. credit, leasing, venture capital funds or similar new types of instruments), enabling policies and regulations, and support to entrepreneurship can boost the capacity of small and medium-sized enterprises (SMEs) – including cooperatives and social enterprises – to maintain employment and create new jobs”

**Conclusions of the 13th European Regional Meeting
of the ILO (Lisbon, 9 - 13 February 2009)**

A competitive, confident and efficient private sector is a large part of the solution, not the problem. *All arms of policy need to be directed to the goal of achieving a healthy private sector to rebuild economic losses and restore employment.*

STIMULATING GLOBAL DEMAND:¹⁴ Much of this will be achieved through fiscal stimulus packages but these, as outlined by the G-20, need some coordination.¹⁵ Given the interdependence of economies, and the global nature of the slowdown, better and more effective coordination of economic policies is essential for success.¹⁶ The Managing Director of the IMF has called for a sizable fiscal response at the global level – suggesting 2% of global GDP. Stimulus plans should create short-term economic activity and job growth while building capacity to improve productivity and sustain future economic growth, such as through investments in modern infrastructure.

PROTECTING THE MOST VULNERABLE: Measures should comprise extending social protection and unemployment benefits, facilitating additional training and retraining opportunities, strengthening placement services, establishing or expanding emergency employment schemes and targeted safety nets.¹⁷

ENSURING THAT SOCIAL PROGRESS IS MAINTAINED: Governments and business alike have a responsibility to ensure that those most at risk are protected. The values and principles contained in the 1998 ILO Declaration on Fundamental Principles and Rights at Work are of particular relevance in this regard.

The main IOE contribution to these international debates so far has been through a six-point plan entitled “*Economic Recovery and Employment*”¹⁸ which proposes measures to overcome the crisis in the immediate term. The statement was developed at an emergency forum to explore the crisis and possible responses in Lisbon in February.

The **6** points are:

1. Improve liquidity to help sustain employment
2. Sustain SMEs and facilitate enterprise creation as the engine for recovery
3. Promote fundamental principles and rights at work
4. Support education and training as the key to future growth and productivity
5. Embrace corporate responsibility as an important means of action
6. Resist all forms of protectionism, including within the labour market

¹⁴ Address to the ILO March Governing Body

¹⁵ G-20 Declaration: Summit on Financial Markets and the World Economy, November 2008.

¹⁶ G-8 Business Statement “Ready for the Future” December 2008.

¹⁷ Statement of the Officers of the ILO Governing Body, November 2008

¹⁸ http://www.ioe-emp.org/fileadmin/user_upload/documents/pdf/papers/statements/resolutions/english/state_200902_lisbon.pdf

3. NATIONAL LABOUR MARKET POLICIES TO EXIT THE CRISIS

A. INCREASING FINANCE OPTIONS

Businesses generally, and SMEs in particular, are vulnerable in any crisis because of their dependence on bank credit and limited access to financial markets. Easing access to financing will reduce the threat of layoffs as it will enable enterprises to overcome cash-flow problems and the drying up of opportunities for trade finance. Cutting fees for lenders and borrowers so that credit is more affordable would also help entrepreneurs in need of start-up capital. Government guarantees on new credit should be considered to save enterprises from having to trim back current operations due to lack of financing.

Among the financial instruments that have been adopted to confront the crisis, credit guarantee mechanisms appear to be one of the main responses used so far. The main reason for government-backed credit guarantees is that, while cash injections to banks may help alleviate the overall credit crunch, lending to SMEs may not improve unless policies are directed specifically towards their needs. Furthermore, policy measures such as lower interest rates, credit lines and direct access to government loans can be considered to restore liquidity. The possibility of establishing inter-bank guarantee systems (in many countries part of the cooperative banking systems) could also be considered.

Some key questions that policy makers should ask to increase liquidity particularly for small enterprises include:¹⁹

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- a. Are there sufficient policy and regulatory incentives to encourage financial institutions to lend to SMEs?
 - b. Are there financial instruments (venture capital) to develop innovative enterprises?
 - c. Are the financial products adapted to the needs of SMEs?
 - d. Is there support targeted to SMEs such as advisory services and programmes to assist them in preparing bankable loan proposals?
 - e. Is the information about financial services well disseminated to SMEs?
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In certain cases, in low income countries, measures aimed at increasing the productivity of small-scale informal and self-employment activities such as targeted micro-credit schemes should be considered (micro-finance institutions (MFIs) have proven very resilient to previous economic downturns).

¹⁹ “Let’s work on the demand side: SMEs can create Jobs”: ILO forthcoming

MFIs remain robust institutions. The International Finance Corporation (World Bank Group) reports that data from the top 150 MFIs show that while the share of borrowers 30 days delinquent on their loans has increased from 1.2% to 2-3%, this is still very low by most standards.

MFIs lend relatively small sums of money to people to start developing profitable business. Many of these businesses then serve local needs which are more stable than export markets.

B. SUPPORTING THE ENTERPRISE SECTOR AND EMPLOYMENT

At present, viable and sustainable enterprises and their workforces are being lost due to poor credit availability, rapidly changing export conditions and collapsing confidence. Decreasing labour costs, without reducing take-home pay, may prevent layoffs. *Short-term measures need to be put into place urgently.*

Several European countries such as Spain and Sweden have cut social insurance contributions so as to reduce labour costs. Others (including Germany, Hungary, Italy and France) are encouraging firms to shorten work weeks rather than lay people off by topping up the pay of workers on short hours. Britain has introduced subsidies to employers to encourage them to hire unemployed individuals who have been out of work for more than six months.

MEASURES CURRENTLY BEING IMPLEMENTED OR CONSIDERED ACROSS REGIONS
<ul style="list-style-type: none"> ▶ <i>Loan guarantee schemes to support working capital for enterprises;</i> ▶ <i>Temporary postponement of certain taxes, in particular payroll taxes which are more of a burden to labour-intensive industries than to capital intensive industries and bear no relationship to profitability or capacity to pay;</i> ▶ <i>Temporary reduction in unemployment insurance contributions;</i> ▶ <i>Targeted incentives and wage top-ups to employers to help them retain skilled employees or those in skills training;</i> ▶ <i>Tax deductions for SMEs to invest in equipment and facilities which would have immediate multiplier effects and also help prepare for the upturn;</i> ▶ <i>Funding to assist enterprises increase worker training;</i> ▶ <i>Support to SMEs to take advantage of new opportunities created by fiscal stimulus plans (for example infrastructure, construction and housing projects);</i> ▶ <i>Incentives for employers who hire workers that have been unemployed for more than six months, through subsidies;</i> ▶ <i>Reduction in the tax wedge of lower wage earners in particular</i> ▶ <i>Exploration of changes to disposable earnings via changes in the tax and benefit system;</i> ▶ <i>Reduction in the number of working hours (with lost wages being partially compensated by unemployment insurance benefits).</i>

“A number of countries are deferring Employer Social Security Contributions (National Insurance contributions) or other employer non-wage labour costs. This both encourages companies to maintain employment levels and provides firms in difficulties with assistance with cashflow at a time when credit may be difficult to obtain, even for viable firms. Some countries are subsidising work-sharing schemes when combined with training, in some cases making training a requirement. Such proposals, which combine an element of fiscal stimulus with support to employment, are worth consideration” (Para 19) G20 “

**Jobs Conference” Chairpersons Summary
(technical contribution to the G20 summit 1-2 April 2009)**

WAYS DISCUSSED BY ENTERPRISES WITH THEIR WORKERS TO MINIMISE LAY-OFFS

- ▶ *Introducing temporary wage cuts across the board, graduated to lessen the disproportionate impact on lower earners;*
- ▶ *Reducing working hours;*
- ▶ *Redeploying staff to other tasks, sometimes to other work sites;*
- ▶ *Taking accrued leave, or bringing forward leave periods, when work is unavailable;*
- ▶ *Restructuring work rosters/shift arrangements;*
- ▶ *Temporary suspension of certain benefits or work allowances;*
- ▶ *Deferring wage increases already agreed;*
- ▶ *Filling work gaps with training;*
- ▶ *Reviewing the use of temporary work and of outsourced activities;*
- ▶ *Reducing overtime premiums or penalty rates;*
- ▶ *Converting full-time employment to more flexible demand-based part-time employment for an agreed period;*
- ▶ *Switching from a production to a maintenance/low season work schedule with a lower rate of pay and no production bonuses or incentives;*
- ▶ *Freezing recruitment/hiring or exercising non-replacement;*
- ▶ *Using group schemes to share apprentices and spread training costs;*
- ▶ *Encouraging staff to undertake community-based work when normal work is unavailable.*

C. SMEs: A KEY PRIORITY

The needs of SMEs should be a policy priority in fiscal stimulus packages and in employment and social policy responses. Their dynamism and greater flexibility often goes hand in hand with weaker financial and management structures which makes them particularly vulnerable in cases of market downturns.

An additional feature of SMEs can be their position in subcontracting and global and national value chains. SMEs can be deeply embedded in complex networks of firms and often rely on only one or a few key customers or suppliers. Their high level of dependency on other economic players and their limited capacity to access new markets also weaken their position in face of the crisis.

Policies to stimulate demand, particularly for those products and services provided by SMEs, need active consideration. This can be achieved by decentralising stimulus expenditures and packaging public procurement in small bids so that SMEs can participate in the tendering process. The decentralisation of infrastructure expenditures can also promote the growth of SMEs.

The crisis also provides opportunities for local SMEs. Indeed, the dramatic fall in trade provides openings for SMEs by allowing them to recapture local markets. This requires access to information, credit, business development services and explicit local level strategies to promote entrepreneurial activity to enter such markets competitively. Such services can also help promote new enterprises in the business and personal service sectors.

Some key SME related questions that policy makers should ask include²⁰:

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- ▶ Will the stimulus package increase demand for goods and services provided by SMEs?
 - ▶ Are there any mechanisms to let budding entrepreneurs identify potential business prospects?
 - ▶ Are SMEs eligible to tender to public contracts and are the bureaucratic obstacles they face minimised?
 - ▶ Are there training programmes and support for local SMEs to ensure that they are able to tender and deliver to public contracts?
 - ▶ Are there incentives to support SMEs to participate in public procurement?
 - ▶ SMEs have limited capacity to look actively for information, which in turn inhibit their participation in these markets. Does the information regarding public contracts reach the SMEs?
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²⁰ "Let's work on the demand side: SMEs can create jobs" ILO forthcoming.

D. BOOSTING DEMAND

Since an export-led recovery strategy is not an option in the current circumstances and many monetary policy options such as interest rate decreases have already been deployed, fiscal packages are being utilized by many policy makers to stimulate demand.²¹ However, not all countries have sufficient fiscal space to implement packages of this kind and expansionary actions may threaten the sustainability of public finances.

Public investment in infrastructure and housing, including through emergency, labour-intensive public works, is intensifying in many countries thanks to fiscal stimulus packages. Such approaches have become an important element of job creation strategies in many low-wage developing countries with considerable reserves of underutilized labour, and they can be applied in developed countries. While capital-intensive infrastructure projects take time to generate jobs, labour-based approaches can create and sustain employment within a short time frame.

Cuts are being made in sales and income tax rates to stimulate consumer spending. These can be applied to specific sectors, for example to boost the automotive industry. Additional efforts targeted at consumers include tax cuts, or other subsidies, to first-time home buyers. For existing home owners, incentives through subsidies and tax exemptions are being granted on energy-efficient home improvements. Increasing the availability of public housing is an additional measure to benefit poor households that some governments have put in place.

Boosting public sector employment and wages might be a tempting way for governments to bolster labour demand, but this is an expensive intervention with limited pro-poor impact. Civil service workers are typically not poor and public sector wages constitute a large share of public expenditures. Once implemented, such increases are also difficult to reverse.²²

European Central Bank President Jean-Claude Trichet recently voiced these concerns, stating that pay restraint would help prevent unemployment scarring ‘*a large proportion of the people of working age*’ and that governments ‘*should pursue courageous policies of spending restraint especially in the case of public wages*’.²³

Indeed, in countries where the private sector is suffering, with enterprises going out of business, and workers losing their jobs, it would be inappropriate for those in the public sector, with somewhat protected livelihoods and a degree of insulation from the crisis, to be afforded special treatment.

²¹ According to the IMF “Fiscal stimulus should be timely (as there is an urgent need for action), large (because the drop in demand is large), lasting (as the recession will likely last for some time), diversified (as there is uncertainty regarding which measures will be most effective), contingent (to indicate that further action will be taken if needed), collective (all countries that have the fiscal space should use it given the severity and global nature of the downturn), and sustainable (to avoid debt explosion in the long run and adverse effects in the short run). The challenge is to provide the right balance these sometimes competing goals – particularly large and lasting actions versus fiscal sustainability.” Fiscal between Policy for the Crisis (IMF staff position note : Antonio Spilimbergo, Steve Symansky, Olivier Blanchard and Carlo Cottarelli December 2008.

²² “How should labour market policy respond to the financial crisis?” World Bank, February 2009.

²³ Jean-Claude Trichet, ECB President’s speech at the Institute of European Affairs, Dublin, 27 February 2009.

E. MAINTAINING EDUCATION AND TRAINING BUDGETS

An important element of employment policy in stimulus measures is to provide budget support for training and education. Education and training remain the most important means to improve employment prospects and are key to future growth and productivity. Communication and engagement between governments and all actors in the economy are crucial in this effort. As is the constant updating of skills needs. Local and regional level partnerships between the main economic actors are critical in this regard.

Budget support for skills development, coupled with measures to improve worker mobility and social safety nets, lies at the heart of an economic and social response to the crisis.

Maintaining the right skills for the labour market will ensure that, when growth returns, the skills the economy needs will be in place. There is a significant risk that extended periods out of work can reduce the skills that individuals have already built up, which further impacts on their attachment to the labour market. Now with orders down and resources lying idle is also the time to address internal issues, such as workplace practices and investing in human capital by improving and retraining the workforce.

F. REGULATORY OVERVIEW

The downturn provides a unique opportunity for governments to assess whether their regulatory environments are facilitating enterprise creation and development, employment generation and economic growth. Governments in too many countries still make it difficult to start a business by maintaining onerous regulatory environments and compliance costs that actually obstruct wealth and job creation. The growth and development of SMEs is hindered most in such environments.²⁴

G. EFFECTIVE LABOUR MARKET REGULATIONS

Stringent layoff regulations can impede flexibility, making it more difficult for enterprises to react quickly to economic downturn.²⁵ Employment regulation does matter to the confidence and conduct of employers, particularly as many struggle to remain in business. Efforts to retain staff numbers need to be facilitated by legislation that allows enterprises and their workers to make the necessary decisions.

Structural reform of labour market rigidities must continue, even in this most difficult environment. More flexibility in labour markets is essential not only for the survival of firms, but also for companies' abilities to retain employees through the economic downturn.

Much of the reduction in European unemployment earlier this decade was due to the rapid growth of temporary contracts – a measure introduced as a way around the expense and difficulty of firing permanent workers. Much of the employment losses are now hitting these temporary workers – young, low-skilled and migrants in particular are bearing the brunt.

²⁴ The cost of starting a business varies from 5% of per capita income to 1,440%. Countries that performed worst on growth in the last decade also had much higher start-up costs than other countries. (IMF 2007)

²⁵ The authors find that job-security regulation clearly hampers the creative destruction process, especially in The cost of starting a business varies from 5% of per capita income to 1,440%. Countries that performed worst on growth in the last decade also had much higher start-up costs than other countries. (IMF 2007) countries where regulations are likely to be enforced (Trade and Employment : Challenges for Policy Research Joint ILO/WTO Study2007)

The importance of labour market reform can be underlined by a look at previous crises. After the recession of the 1970s and early 1980s, lack of labour market reform in a number of European economies kept unemployment stubbornly high.²⁶

H. DIALOGUE

Dialogue is a key element in developing strategies to counter the recession and securing the commitment of governments, employers and unions in their implementation. At a time when confidence is at low ebb, enhanced dialogue is needed to overcome mistrust and find agreed ways forward. Indeed, political, business and trade union leaders have a special responsibility to work collaboratively to restore growth in our national economies and to reinvigorate labour markets in a way that will lead to sustainable growth.

In the current climate of fear and apprehension in the workplace, enterprises can help ease tensions by planning and implementing decisions in a manner that is fair, consistent and based on rigorous analysis – especially when they relate to downsizing. Workers sense fairness when treated with respect and dignity and when given advanced notice of changes with an opportunity to provide input where appropriate. Enterprises should be open about the challenges facing their business. In many cases providing real-time data on the enterprise's economic situation can be helpful.

Fear of layoff pervades the workplace as negative economic news accumulates, making it difficult to motivate staff at this critical time. Practicing good human resource management now will pay high dividends when good times return.

I. SOCIAL PROTECTION

Strengthening social protection measures such as wider coverage of unemployment benefits and insurance schemes and protecting pensions from the devastating decline of financial markets could be considered as a means to bolster demand and protect the most vulnerable. This is however not without its challenges. In developing countries the fiscal space to expand social spending will be limited and in developed countries social spending has already increased considerably in recent years.²⁷ Targeting also needs to be at the forefront of policy decisions and any measures that are introduced should ensure that benefits fall to those who need them the most.²⁸

An effective policy package should include a combination of passive and active labour market programmes designed to stabilize employment and earnings. OECD countries on average spend 1.5% of GDP on labour market polices (0.9% on passive measures such as unemployment assistance and 0.6% on active policies).²⁹

²⁶ OECD presentation London 'Jobs summit' 24 March

²⁷ "In developed countries, governments have been taxing more and spending more to offset the trend towards more inequality – they now spend more on social policies than at any time in history." ('Growing Unequal' OECD Oct 2008.

²⁸ There is increasing awareness that supply-side subsidies for health and education services often fail to benefit the most vulnerable people. Recent research from public expenditure incidence analysis shows that spending on education and health is typically skewed to services disproportionately used by the rich and middle class. The share going to the poorest 20%. (World Bank 2004 'Annual review of development effectiveness'.)

²⁹ Ibid

Active labour market programmes (such as job-search assistance and monitoring, personalised action plans for job seekers, training, and targeted programs for disadvantaged groups) can play an important role in facilitating the adjustment of individuals to changing labour market conditions. Importantly, with many countries undertaking new public investment driven by fiscal stimulus packages, new skills will be needed (e.g. in construction, infrastructure and alternative energy).

During a crisis, special programmes to assist displaced or retrenched workers should be intensified. Schemes targeted to temporarily laid-off workers can be efficient, as workers with enterprise-specific training are expected to return to the same enterprise when the business climate improves.

Attention also needs to be paid to passive measures. Early retirement schemes and providing exemptions from job search for older workers has historically not freed up jobs (as intended) for younger job seekers. Additionally some European countries have advanced reforms in recent years to ensure the effectiveness of schemes for those seeking sickness and disability programmes – again a fear could be backsliding on these reforms.³⁰

“Long term unemployment or underemployment, and the impact this has on both men and women is a key issue for all countries to tackle. Reducing the labour supply is not an effective option. Evidence shows that reducing the labour supply by early retirement schemes and exemptions from job search for the older unemployed may undermine labour supply” (Para 17) G20 “Jobs Conference” Chairpersons Summary (technical contribution to the G20 summit 1-2 April 2009)

Conditional cash transfer (CCT) programmes aimed at poor families on the condition that, for instance, their children regularly attend school, receive prescribed standards for preventive health care, and participate in nutrition programmes – should also be considered as a policy instrument to cushion the blow to the poorest.

J. MIGRANTS

Migrants are likely to be among the first workers to be laid off because of their concentration in the most vulnerable sectors, such as construction or tourism, and because they frequently hold temporary jobs. In previous downturns, migrants might have returned home. The global nature of the current crisis means that this may not be an option.

³⁰ OECD presentation London ‘Jobs summit’ 24 March 2009

It would, however, be counter-productive for governments in developed countries to close their doors to migrants. Many are still needed to do jobs that citizens in industrialized countries are unable or unwilling to undertake. The structural need for migrants is still underlined by demographic projections showing that, by 2050, these countries will experience even greater labour shortages due to falling birth rates and ageing working populations, with twice as many people over 60 than children. Short-term responses could therefore jeopardise long-term needs.

K. GREEN JOBS

The crisis is regarded as an opportunity to promote employment in the environment sector by means of so-called “green jobs”. However, to date the “green jobs” debate has been too narrow and misleading. In the traditional concept of green jobs the focus is exclusively on the so-called “environmental industry”. However, there is no such thing as an “environmental industry” forming a separate branch of the economy in its own right.

Moreover, environmental protection is becoming increasingly process and product-oriented. Cars are manufactured with an ever greater degree of energy efficiency, and as a product, too, they are much more environmentally friendly. However, it is virtually impossible to establish the impact that product and process-related environmental protection has on employment policy.

There is no point using the “green jobs” concept to divide the labour market into good = green and bad = non-green. This narrow view is not helpful in addressing the job policy challenges posed by climate change and the need to create jobs and prosperity for the earth’s rapidly growing population. Instead, the main idea inspiring “green jobs” should be that environmental protection, increased employment and economic development go hand in glove.

Sound environmental policy along market economy lines can develop into an engine for growth and employment. The global demand for new drive systems in the mobility sector, for effective thermal insulation systems and efficient heating, ventilation, air conditioning and control engineering in the building sector, for innovative traffic management systems and low-energy electrical devices opens up job opportunities in every branch of the economy. Predictable and investment-friendly conditions are needed for innovative companies to make the best use of this opportunity.³¹

³¹ Discussion paper by the German Employers (BDA) on “Green Jobs” 2009

L. LABOUR MARKET PLANNING

Enterprises need to focus not only on survival but also on the next upturn, adopting measures that will serve as the basis for success. This is a time for forward planning, as demonstrated by the US auto industry in foreseeing the future opportunities inherent in adopting greener technologies.

New opportunities arise because downturns often change consumer preferences; people experiment with lower-cost products or modes of consumption not pursued seriously during more prosperous times.

Consistently reported in IOE surveys of its members in recent years, and reconfirmed by the forthcoming “Trends in the Workplace” Survey 2009, is that poor labour market planning is contributing to skills shortages – particularly high-end specialised skills across professions, sectors and regions. Similarly, lack of consultation with the business community on education systems is directly contributing to skills mismatches. One concern with current efforts to reinvigorate economic growth is that policy makers may lose sight of the fundamental prerequisites for effective longer-term labour market planning, i.e. accurately matching future labour market demand with supply.

4. EMPLOYERS’ ORGANIZATION STRATEGIES

A. PROVIDING LEADERSHIP AND ADVOCACY

The global economic crisis was sparked by a failure of responsible lending practices and investment decisions, and lack of adequate governance. Businesses and employers in the real economy neither caused nor contributed to this crisis but are currently suffering the consequences of the decline in confidence, in market activity and in asset and commodity prices.

The sweeping views advanced by some that the crisis is the fault of the private sector and globalized markets is opportunistic and needs to be refuted. ³²Standing up for economic freedom more than ever needs to be the key response from representative business organisations.

³² See speech by ACCI Chief Executive Peter Anderson, February 2009:
http://www.acci.asn.au/text_files/speeches_transcripts/2009_Speeches/PA%20Speech_Feb2009.pdf

B. WORKING WITH MEMBERS, TRADE UNIONS, GOVERNMENTS AND OTHER STAKEHOLDERS IN PROMOTING VIABLE NATIONAL POLICY PROPOSALS TO EXIT THE CRISIS

Employers' Organizations (EOs) should assume a leadership role and champion open and honest debate with members, as well as other stakeholders such as governments and trade unions, regarding the policies and measures needed to exit the crisis.³³ Policy choices should be promoted that are based on the principle of *what is likely to work*.

Public finances may need to be reigned in, entailing cuts in public expenditure; taxation policies may have to be revisited and regulation reviewed to enable the implementation of crisis responses. Only open, honest and considered debate will allow for difficult decisions to be taken.

Many individual initiatives and measures are being put in place at enterprise level to address the crisis. EOs are well placed to inject these ideas into larger national policy debates. They can identify which sectors of the economy are most affected and propose measures to alleviate negative impacts.

For business to create wealth and jobs, it needs liberal, outward-looking economic policies that favour growth. It needs to continue advocating vigorously in favour of such policies, while recognizing that they have to be built on consensus with benefits accruing to all stakeholders. This means investing in human capital which is so important in a globalizing world; improving mechanisms for dialogue; and promoting policies that improve worker mobility and social safety nets.

C. ENSURING RESPONSES ARE EFFECTIVE AND SUSTAINABLE

In developing responses, EOs should advocate that lessons be learnt and solutions based on proper analysis. New regulatory proposals should be considered, targeted, proportionate and workable.

Important and wide-ranging decisions, many with longer-term ramifications, are currently being made by governments, understandably in an atmosphere of urgency. EO's should caution governments against adopting immediate crisis management policies that compromise longer-term growth prospects and urge that other policy goals, in particular education, are not sacrificed in the short term.

Different sectors may look different beyond the crisis. A more consolidated financial system will for instance most likely emerge; competition may be weaker leading to higher costs of credit and other financial services. There will be an increase in the real cost of capital. Enterprises, particularly small ones will need to prepare for this reality. EOs can play an important role in helping enterprises prepare for this new reality.

³³ See proposals in USCIB letter to President Obama: http://www.uscib.org/docs/2009_01_21_obama_letter.pdf

D. HELPING REBUILD TRUST

Faith and trust in corporate governance has taken a major knock. Public perception and trust of large corporations has been seriously damaged. Enterprises should show a renewed commitment to accountable and transparent corporate governance. Employers' organisations can lead the way by working with their members across sectors in restoring confidence.

EOs must insist on the ethical conduct of enterprises and be prepared to criticize those that fall short of the mark. They need to actively promote fundamental principles and rights at work everywhere.

E. EXPLAINING CLEARLY THE SOCIAL AND ECONOMIC RELEVANCE OF THE ENTERPRISE SECTOR

Employers' Organizations need to be at the forefront of national discussions in explaining why profits matter to everyone, how investment and job creation depend heavily on its success and to persuade the public that society has a very real interest in the health of the business sector. EOs need to promote the message that, when a culture encouraging entrepreneurial activity and business development is established in the right regulatory framework, wealth, jobs, new products and services are created and consequently society as a whole benefits.

F. PROMOTING MECHANISMS FOR DIALOGUE WITH KEY STAKEHOLDERS

In times of change and uncertainty, dialogue between enterprises and their workers is particularly vital. EOs at national, and sectoral, level should engage with their respective partners in finding ways to exit the crisis, while promoting to member enterprises the importance of dialogue and transparent decision making.

5. THE MULTILATERAL RESPONSE

Much of the discussions in the coming period will be focused on the multilateral system and how it needs to be re-shaped to ensure that it is more responsive to the needs of the modern global economy. These of course are complex technical and political debates.

A cohesive and effective multilateral system, with different components of that system focusing on areas of specialization and expertise, in a cohesive and coordinated manner, is clearly required. Any future reform efforts should ensure that each component of that system is highly relevant to the workings of today's integrated global economy and can effectively and efficiently carry out its role and is held to the highest technical standards.

Efforts to strengthen further the role of the IMF as the body charged, at the international level, with ensuring economic and financial stability and in providing macro–financial policy advice are likely.³⁴ Similarly, the World Bank may see its role expanded.

In terms of labour markets the ILO, as the only internationally recognized agency mandated to address the implications of the economic crisis on workplaces and labour markets, is faced with a daunting set of technical challenges. But this is also an opportunity for the organization. Its response must be focused on specific and practical proposals to get labour markets moving again.

This will entail prioritising and reallocating resources from existing activities to more relevant ones. The ILO has limited resources, both human and financial. It needs to work with other multilateral partners to arrive at effective responses, leveraging each other’s comparative strengths in a fashion that is positive and truly complementary.

Employers in their most recent debates at the ILO’s governing Body outlined the following as constituting the main elements to the ILO response:

A. GATHERING, ANALYSING AND DISSEMINATING INFORMATION

Providing timely and accurate information to constituents is perhaps the most valuable element. The ILO is ideally structured to gather data on the employment, labour and social impacts of the crisis in all regions, and policy responses need to be predicated on such accurate labour market information (LMI).

This involves cataloguing policies, measures and initiatives currently being put in place at enterprise, sectoral, regional and country levels, along with a review of bipartite/tripartite strategies.

Examining and underlining lessons from previous crises, such as the East-Asian crisis of the 1990s would also be an important component.

B. SUPPORTING SOCIAL PARTNERS

Employers’ and workers’ organisations can play a key role in developing strategies to exit the crisis. In many cases, they will need deeper assistance for more effective policy engagement.

C. PROVIDING RAPID TECHNICAL GUIDANCE

We suggest that the Office establish “Helpdesk/Policy Contact Points” (which are supported by technical teams from across the Office) whereby constituents can access information and guidance on what is happening in given policy areas across regions and sectors. We suggest the following priority areas: *social safety nets; labour market information; dialogue; employment-intensive approaches; sustainable enterprise creation; labour market institutions and advisory services; skills development and youth employment.*

³⁴ “Ready for the Future” G8 Business statement December 2008 . See full statement here: http://www.uscib.org/docs/g8_business_summit_statement_2008_december.pdf

D. UTILISING THE GLOBAL EMPLOYMENT AGENDA

The main tool at the ILO's disposal in responding to the crisis is the Global Employment Agenda (GEA). We advocate refocusing and updating this policy framework within the context of crisis response strategies for constituents.³⁵

E. ENSURING THAT SOCIAL PROGRESS IS MAINTAINED IN THE CURRENT CRISIS

Governments and business alike have a responsibility to ensure that the most vulnerable are protected. The values and principles contained in the 1998 ILO Declaration on Fundamental Principles and Rights at Work are of particular relevance in this regard.

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³⁵ Since the development of the GEA, the International Labour Conference has adopted conclusions on the following employment themes: the informal economy (2002); youth employment (2005); the promotion of sustainable enterprises (2007); skills for improved productivity, employment growth and development (2008) and promotion of rural employment for poverty reduction (2008).

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